

April 9, 2018

The Honorable Al Muratsuchi, Chairman  
Joint Legislative Audit Committee  
1020 N Street, Room 107  
Sacramento, California 95814

**RE: Local Government High Risk Audit Program – City of Atwater**

Dear Chairman Muratsuchi:

Government Code section 8546.10 permits the California State Auditor (State Auditor) to develop a high-risk local government agency audit program for the purpose of identifying, auditing, and issuing reports on any local government agency, including a city, county, special district, or other publicly created entity, that the State Auditor identifies as being at high risk for the potential of waste, fraud, abuse, and mismanagement or that has major challenges associated with its economy, efficiency, or effectiveness. Pursuant to this provision, I plan to present for the committee's review and approval a proposal to audit the city of Atwater.

Atwater is a city in Merced County with a population of roughly 30,000 that operates under a council-manager government system and had fiscal year 2016-17 general fund revenue of \$11.9 million. After nearly a decade of yearly operational deficits, Atwater had a cumulative general fund deficit of over \$2.8 million as of the end of fiscal year 2016-17.

In 2014 the State Controller's Office (SCO) identified several problems with Atwater's financial reporting and practices, and expressed concerns regarding its financial condition. As a result of continued operating deficits, use of other funds to cover general fund expenses, and other operational factors, the State Auditor believes that Atwater may be a high-risk entity. Thus, it is necessary to perform detailed audit work to evaluate whether Atwater will be able to address these conditions.

An audit of the city of Atwater, including a review of the actions Atwater has taken in response to the internal control deficiencies identified by the SCO, would provide additional insight into how Atwater can improve its financial position. The proposed audit will address the following:

1. Does Atwater have adequate plans to address its current financial position, including its general fund deficit?

2. Does Atwater have a plan to generate additional revenue or cut costs in order to strengthen its ability to repay inter-fund loans in a timely manner, and pay its retirement and other post-employment benefits liabilities and debt obligations when due?
3. Is Atwater's process for setting utility rates reasonable and are revenues generated from utility rates exclusively used for their intended purposes?
4. Is Atwater making progress toward correcting internal control deficiencies the State Controller's Office identified in its 2014 report?
5. Is Atwater making efforts to fill key management positions and maintain organizational and leadership continuity within city operations?
6. Are Atwater's efforts to maintain and use its public safety resources effective and resulting in reductions to its relatively high crime rate?

If you have any questions regarding this audit proposal, please contact me or Paul Navarro, Chief Deputy Director of Operations, at (916) 445-0255.

Sincerely,

A handwritten signature in black ink that reads "Elaine M. Howle". The signature is written in a cursive, flowing style.

ELAINE M. HOWLE, CPA  
California State Auditor